

PHILIPPINES ECONOMIC WRAP-UP

JUNE 3-9, 2000

Summary

The Philippine Congress moved forward this week on key economic reforms, including E-Commerce, power sector reform and investment incentives. May inflation (year-on-year) climbed to 4.1%, but the government still believes its full year target of 5-6% is achievable. The failure of TLC Beatrice Foods Chairman Loida Nicolas-Lewis to find a banking partner led to a failed bidding in the government's attempt to sell its 30% stake in troubled Philippine National Bank. We also report on local banking developments and fears of a slowdown in car sales.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our May Economic Outlook, which can also be found on our web site.

Contents

MARKET AND POLICY DEVELOPMENTS

- Forex Report
- Credit Market Report
- Stock Market Report
- Economic Reform Legislation Moves Forward
 - E-Commerce Bill
 - Power Sector Reform
 - Investment Incentives
- May Year-On-Year Inflation At 4.1%
- Government Declares Failed Bidding For PNB Bank Notes
- Automotive Assemblers Fear Sales Slowdown

Market and Policy Developments

FOREX REPORT

With no significant news to influence it, the Philippine peso ended the week at the same level as its June 2 close. Trading volumes were near year-to-date averages. As noted, on June 9 the peso closed at P42.465/US\$, which was also its June 2 close.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
MAY 01	Markets Closed		
02	41.275	41.279	127.9
03	41.269	41.270	84.4
04	41.265	41.280	65.5
05	41.279	41.280	112.6
MAY 08	41.274	41.280	45.0
09	41.279	41.279	57.5
10	41.353	41.370	113.5
11	41.398	41.430	93.5
12	41.474	41.500	119.5
MAY 15	41.589	41.560	135.5
16	41.613	41.630	86.6
17	41.662	41.665	145.5
18	41.727	41.730	183.0
19	41.682	41.670	103.9
MAY 22	41.801	41.915	157.7
23	42.158	42.370	161.5
24	42.749	42.740	119.3
25	43.159	43.400	206.7
26	42.976	42.720	170.7
MAY 29	42.649	42.710	163.7
30	42.829	42.750	92.4
31	42.649	42.620	146.5

JUN 01	42.633	42.580	104.5
02	42.465	42.465	113.1
JUN 05	42.421	42.320	147.7
06	42.233	42.380	199.2
07	42.417	42.360	131.3
08	42.475	42.480	101.0
09	42.521	42.465	99.7

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Citing the government's "healthy cash position" and high liquidity in the banking system, Finance Secretary Jose Pardo said there was little reason to expect significant increases in domestic interest rates, despite accelerated inflation in May. His assertion was borne out as rates for all three maturities of T-bills offered at the June 5 auction fell on a full award of P4 billion (against P11.237 billion in offers). Interest rates on 91-day bills fell 6 basis points to 8.908%. The 182-day bill rate sank 9.3 basis points from two weeks earlier (no award was made for 182-day bills on May 29) to end at 10.282%, and an 18.5 basis point slide brought the interest rate on 364-day bills to 11.211%.

The declines continued at the auction of 5-year T-bonds on June 6. With P6.855 billion worth of offers from banks, the Treasury Bureau was able to sell the full P3 billion of bonds available and bring the rate down 25 basis points to 13%.

Given the government's strong cash position, Deputy Treasurer Edward Mendiola suggested that the government may be in a position to announce a reduction in its weekly domestic borrowings by the end of June.

----- **Domestic Interest Rates (in percent)** -----

Treasury Bills

Auction Date	91 days	182 days	364 days
MAY 02	8.744	9.535	10.510
MAY 08	8.746	9.825	10.800
MAY 15	8.690	9.900	10.963
MAY 22	8.975	10.375	11.423
MAY 29	8.968	(no sales)	11.396
JUN 05	8.908	10.282	11.211

Source: Bureau of the Treasury

Prime Lending Rates of 16 Expanded Commercial Banks

Date of Survey	Average	Range
MAY 03	10.9953	9.50 - 13.375
MAY 09	11.0068	9.50 - 13.375
MAY 18	11.0078	9.50 - 13.375
MAY 25	11.1516	10.00 - 13.750
JUN 01	11.1416	10.25 - 13.625
JUN 08	11.1228	10.00 - 13.625

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Philippine stocks remain in the doldrums, with the daily value of shares traded continuing to average under P1 billion. Traders continue to bemoan a lack of good corporate news, but continue to believe that the current floor of 1500 can be maintained for now. The 33-share Philippine Stock Index (PHISIX) ended the week at 1521.93, up somewhat from its June 2 close of 1512.75.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
MAY 01	Markets Closed	

02	1606.04	979
03	1592.68	692
04	1553.34	922
05	1551.90	914
MAY 08	1518.61	828
09	1523.43	818
10	1522.96	4599 a/
11	1505.21	778
12	1539.31	1064
MAY 15	1517.09	1401
16	1507.98	1023
17	1534.05	1328
18	1521.36	539
19	1478.68	1162
MAY 22	1412.09	935
23	1404.67	1143
24	1418.79	1266
25	1426.62	1267
26	1427.26	2540
MAY 29	1482.77	1107
30	1470.07	746
31	1478.76	623
JUN 01	1470.53	902
02	1512.75	1135
JUN 05	1552.65	1136
06	1562.38	1222
07	1522.33	796
08	1537.13	598
09	1521.93	977

a/ P3.9 billion represented block sale of Bank of Nova Scotia's shares in Solid Bank to Metrobank.

Source: Philippine Stock Exchange

ECONOMIC REFORM LEGISLATION MOVES FORWARD

In April, an impending congressional recess spurred both houses of the Philippine Congress into action, passing bills on energy restructuring, banking and securities

reform, and so on. The June 9 recess saw a similar rush to legislate, as noted below. These key economic reforms are long anticipated and will help to improve the investment and business climate in the Philippines. Congress will return to its deliberations on July 24.

E-Commerce Bill Ready For President's Approval:

The electronic commerce bill, after ratification by the House of Representatives on June 7 and the Senate on June 8, will go to the President for signature. The bill provides a legal framework to govern and safeguard electronic commercial transactions in the country, including international exchange of information, transactions and contracts. The bill's provisions are based on the UNCITRAL Model Law on Electronic Commerce. The bill also provides penalties for illegal activities such as hacking, altering, forging, inflicting damages and violating secrecy, as well as illegal use of electronic documents sent, received, stored or compiled. Computer hacking is punishable with a minimum fine of P100,000 (about \$2,360) and imprisonment of six months to three years.

Power Sector Reform: The Philippine Senate has completed action on bills to restructure the electric power sector. The Senate action follows approval of similar legislation in April by the House of Representatives, and a bicameral committee has already begun work to reconcile the bills. According to a senior Department of Energy official, a consolidated measure should be ready for legislators to ratify when Congress reconvenes on July 24, and the bill could become law by August. The key points of the legislation create a competitive market for power generation and retail supply; create a wholesale power market; provide open access to transmission and distribution facilities; and pave the way for the privatization of the National Power Corporation (NPC). The measure also provides new and strengthened mechanisms to prevent anti-competitive behavior. Once the President signs the measure, drafting the implementing rules and regulations will take up to 12 months; privatization of NPC assets and implementing the new law will occur over several years. Real competition in the power sector is expected to lead to lower power costs, greater efficiency in power generation and use, and concomitant environmental benefits.

Investment Incentives: The House of Representatives passed on third and final reading proposed legislation which seeks to enhance investment incentives administered by the Board of Investments (BOI) under the Omnibus Investment Code. Since fiscal measures must originate from the Lower House, HB 10596's passage paves the way for movement on a similar proposal in the Senate. Among other things, House Bill (HB) 10596 would expand the list of BOI-administered incentives to include: a longer income tax holiday (up to 12 years) for new big-ticket "pioneer" projects, as well as information technology projects; provisions for net operating loss carry-forward and the accelerated depreciation of fixed assets; more liberal tax deductions for training and research and development expenses than permitted under the internal revenue code; deferred imposition of the minimum corporate income tax (2% of gross income); and, subject to certain conditions, provision for an "investment tax allowance" to the extent of a BOI-registered firm's actual investments in fixed assets. HB 10596 also seeks to restore BOI incentives that have expired, mainly tax/duty exemptions and tax credits for purchases of capital equipment.

MAY YEAR-ON-YEAR INFLATION AT 4.1%

The government's National Statistics Office (NSO) reported that May 2000's consumer price index (CPI) increased by 0.4% month-on-month, from 0.2% in April. A sharper increase in the heavily-weighted food index (which constitutes more than half of the consumer price basket) mainly pushed up the CPI. This may partly reflect the lagged effect of weak first quarter agricultural sector output (the result of unfavorable weather, disease and pest infestation). Because of 1999's relatively low base, May 2000's consumer price inflation rose 4.1% year-on-year, accelerating for a fourth consecutive month. Bangko Sentral officials said that May's year-on-year CPI increase tracked with the government's 4.0-4.1% internal projection.

Economists generally expect year-on-year inflation to inch up as the year progresses -- reflecting improving overall demand, cost push effects of fuel and utility

rate adjustments, and lingering fiscal uncertainties. Inflation slowed during 1999's second semester, and this year's prices will, therefore, also be coming off a relatively low base. Still, inflation thus far has been lower than expected. Year-on-year inflation averaged 3.3% during the first five months of the year, well within the government's 5-6% full-year target.

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month
	-----	-----
Jan 1999	11.6	2.1
Feb	9.9	(0.1)
Mar	8.7	(0.3)
Apr	7.9	(0.1)
May	6.7	0.1
Jun	5.7	0.8
Jul	5.7	0.2
Aug	5.5	0.3
Sep	5.7	0.5
Oct	5.4	0.3
Nov	3.9	0.1
Dec	4.3	0.1
Average		
Jan-May 1999	9.0	
Jan-Dec 1999	6.6	
Jan 2000	2.6	0.5
Feb	3.0	0.3
Mar	3.3	0.1
April	3.7	0.2
May	4.1	0.4
Average		
Jan-May 2000	3.3	

Source: National Statistics Office

GOVERNMENT DECLARES FAILED BIDDING FOR PNB

The Prequalifying, Bidding and Awards Committee (PBAC) overseeing the privatization of Philippine National Bank (PNB) declared a failed bidding on June 8, a day before PNB's scheduled sale. The committee had earlier pre-qualified Rizal Commercial Banking Corporation (RCBC, a local commercial bank) and, to avert a failed bidding for the combined government-Lucio Tan 80% PNB stake, also "conditionally pre-qualified" the LNL-Templeton group (led by U.S.-based TLC Beatrice Corporation and its CEO, Loida Nicolas-Lewis). However, LNL-Templeton failed to meet the government-imposed June 8 deadline for the consortium to name a foreign bank partner. The PBAC has yet to draw up an alternative strategy following the failed bidding, but the options include putting up the government's 30% share on the auction block or entering into a negotiated sale. Government officials indicated that the alternative privatization strategy would also take into consideration Lucio Tan's plans for his group's shares in PNB.

BANK NOTES

Metrobank to Absorb Solidbank: Publicly-listed commercial bank Metropolitan Bank and Trust Company (Metrobank) said it intends to absorb the financial and other non-real estate assets of Solidbank -- the biggest of three commercial banks which the Metrobank group acquired over the past year. Under the plan, Solidbank will end up as a "shell company", to be merged with the Metrobank group's investment house (First Metro Investment Corporation, envisioned to take over Solidbank's publicly-listed status). Metrobank hopes to complete the integration of Solidbank by September. Two other bank acquisitions -- Philippine Banking Corp. and Asian Bank -- are in the process of merging with Global Business Bank, the Metrobank group's smaller commercial bank affiliate.

Dao Heng Bank and Banco de Oro Exploring Merger Deal:

According to reports, Dao Heng Bank's locally incorporated commercial bank subsidiary and taipan Henry Sy's Banco de Oro are exploring a merger deal. The envisioned merger has Banco de Oro as the surviving entity. The Hong Kong based Dao Heng Bank reportedly

wants to retain its presence in the country by keeping some stake in the merged institution.

Urban Bank Execs Facing Charges?: While not giving details, Bangko Sentral Governor Rafael Buenaventura indicated in press interviews that top executives in Urban Bank faced criminal charges. Press articles quoting the governor reported that a multi-agency task force was in advanced stages of gathering evidence to strengthen the government's case. Separate reports indicated that the possible charges could include violations of prudential loan limits to directors, officers and stockholders. The task force is also investigating possible malpractice and violations which may have resulted from collusion between Urban Bank and its financially-strapped investment house subsidiary, Urbancorp.

AUTOMOTIVE ASSEMBLERS FEAR SALES SLOWDOWN

The automotive industry continued to enjoy strong sales through the first five months of the year, with total sales climbing 20.2% to 34,025 units from 28,297 units a year ago, the Chamber of Automotive Manufacturers of the Philippine Inc. (CAMPI) reported. However, assemblers noted sales growth has tapered off in the last two months, and are worried they may not be able to sustain current growth pace for the rest of the year. A CAMPI official hinted that in order to cope with the increase in foreign exchange cost, assemblers are considering raising vehicle prices. This could happen by August, when current inventory has been depleted. The worsening Mindanao conflict and the bomb scares in Metro Manila have affected consumer confidence that could lead to postponing already planned purchase of new vehicles. A Toyota Motor Philippines senior official has commented the industry was not as sure as it was before that the market would sustain its strong first quarter sales for the rest of the year.